

redefine the term to mean a hoped-for reduction of next year's *increase* in the debt—a very different story indeed.

Competition at Work: Xerox at 25

Murray N. Rothbard

A little over 25 years ago a revolutionary event occurred in the world of business and in American society generally. It was a revolution accomplished without bloodshed and without anyone being executed. The Xerox 914, the world's first fully-automated plain-paper copier, was exhibited to the press in New York City.

Before then copiers existed, but they were clumsy and complex, they took a long time, and the final product was a fuzzy mess imprinted on special, unattractive pink paper. The advent of Xerox ushered in the photocopying age, and was successful to such an extent that within a decade the word "xerox" was in danger of slipping out of trademark and becoming a generic term in the public domain.

Many people, and even some economists, believe that large, highly capitalized firms can always outcompete small ones. Nothing could be further from the truth. In the pre-Xerox age, the photography industry was dominated, at least in the United States, by one giant, Eastman Kodak. And yet it was not Kodak or any other giant business or massive research facility that invented or even developed the Xerox process. It was invented, instead, by one man, Chester Carlson, a New York City patent attorney, who did the initial experiments in the kitchen of his apartment home in 1938. Carlson then looked around for a firm that would develop a commercial product from his invention. He first

thought of Eastman Kodak, but Kodak told him it would never work, that it was too complex, would be too costly to develop, and, most remarkably of all, would have only a small potential market! The same answer was given to Carlson by 21 other large firms such as IBM. They were the "experts"; how could they all be wrong?

Finally, one small firm in Rochester took a gamble on the Xerox project. Haloid Co., a photographic paper manufacturer with annual sales of less than \$7 million, bought the rights to the process from Carlson in 1947, and spent \$20 million and 12 years before the mighty Xerox 914 came on the market in the fateful fall of 1959. Horace Becker, who was chief engineer on the Xerox 914, explains that "technically, it did not look like a winner. . . . That which we did, a big company could not have afforded to do. We really shot the dice, because it didn't make any difference." Small business can outcompete, and outinnovate, the giants.

Haloid Co., then Haloid Xerox Co., and finally Xerox, became one of the great business and stock-market success stories of the 1960s. By the early 1970s, it had captured almost all of the new, huge photocopier market, and its 1983 revenues totaled \$8.5 billion. But by the mid 1970s, Xerox, too, was getting big, bureaucratic, and sluggish, and Japan invaded the photocopy market with the successful Savin copier. As competition by new originally small firms accelerated, Xerox's share of the market fell to 75% in 1975, 47% in 1980, and less than 40 percent in 1982. As one investment analyst commented, "They had an aging product line. They were caught off guard."

In the world of business, no firm, even the giants, can stand still for long. In trouble, Xerox fought back with its new and improved 10 Series of "Marathon" copiers, and in 1983 the company increased its share of the photocopy market for the first time since 1970; and its record considerably improved in 1984.

So, Happy Birthday Xerox! The Xerox success story is a monument to what a brilliant and determined lone inventor can accomplish. It is a living testimony of how a small firm can innovate and outcompete giant firms, and of how a small firm, become a giant, can rethink and retool in order to keep up with a host of new competitors. But above all, the Xerox story is a tribute to what free competition and free enterprise can accomplish, in short, what people can do if they are allowed to think and work and invest and employ their energies in freedom. Human progress and human freedom go hand in hand.

Looking Beneath the Surface

Llewellyn H. Rockwell, Jr.

I learned two lessons from my years on Capitol Hill as Congressman Ron Paul's chief aide: 1) Every act of government deliberately benefits an interest group coalition at the expense of the rest of us; and 2) The government and the interests always lie about it.

During the gasoline crisis, for example, Congress passed the "windfall profits" tax on oil. The politicians and their lapdogs in the media trumpeted this as a deserved comeuppance to Big Oil.

Seen from the inside, it was just the opposite. The large, multi-national oil companies, in cahoots with Jimmy Carter's Department of Energy, designed the tax and actively lobbied Congress for it. Why? Because it was to their comparative advantage. More money for energy programs flowed to the Establishment companies through such corporate welfare as the synfuels program, and the tax harmed only small domes-